# IFRS and the Works Council in France

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**Abstract** This paper is about Financial Reporting for employees and their representatives. They have specific needs that do not meet those of shareholders. The need for employees to be given comprehensive information on the company's situation is not taken into account by the prevalent reporting standards, i.e. IFRS.

In the first part of this paper, we show how IFRS are detrimental to the specific reporting's needs of employees and works councils. In the second part, we present Jacques Richard's contribution to company's financial analysis, to the benefit of all stakeholders.

Now that the IFRS have invaded the field of accounting and financial reporting, we should fall back on ad hoc forms of reporting, to meet the needs of employees and their representatives. We explore some of these ad hoc forms, only to conclude that they have limited scope and few support from the regulatory bodies.

This conclusion is not satisfactory per se. It comes down to the fact that the IFRS have prevailed, even though they clearly do not meet the needs of users. Moreover, there is no certainty that shareholders will take advantage from the instability created by these standards. The fact that since the last financial crisis, the value of many listed companies is now lower than that of their book value, even when inflated by "made in IFRS" pyrotechnics and updates, indicates a level of pretension that cannot withstand economic cycles.

## 1 Introduction

The French legislative framework recognised at a very early stage (1945) the need for employees to be given comprehensive information on the company's situation. Through a works council, employees can appoint a chartered accountant to *"analyse all the economic, financial or social elements required in order to understand the accounts."*

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The educational issue is clear but the question of meaning (understanding of the accounts, in the words of the law) requires us to focus on what is really important to employees.

This work is also a kind of dual mediation (facilitated by the works council and the chartered accountant) between the company's management and its employees. Management can ensure that employees have a clear understanding of the company's situation and the challenges it faces, while keeping control of confidentiality issues.

For more than 30 years, our consultancy has helped works councils to understand the strategic, financial and social challenges in their companies. The needs for information of the works council are different from those of the shareholders. Traditionally, the French accounting standards offered the advantage of a wider reporting, in particular through the analysis of the value added. The value added is a key concept for works councils. For them, it is the value added, rather than the net income that represents the real wealth of the company. Correlatively, it is the whole range of stakeholders (and primarily the employees) that has to benefit of this wealth, and not the sole shareholders. Yet the adoption by France of the IFRS proved to be detrimental on this issue because the value added reporting is only optional.

In the first part of this paper, we will show how IFRS are detrimental to the specific reporting's needs of employees and works councils. In the second part, we will present Jacques Richard's contribution to company's financial analysis, to the benefit of all stakeholders.

## 2 IFRS or How to Answer Unasked Questions

Without harking back to the origins of the IFRS and the history of their adoption in Europe, it is immediately apparent that they have been detrimental overall to the needs of employees and their representatives (works councils and group works councils), depriving them of the tools needed to analyse the issues closest to their hearts (the entity's activity and performance but also its sustainability) and forcing the shareholders' ideology on them as the only acceptable management perspective.

Employees need high standards financial information, but this is often confused with financial communication. There is no limit to the powers of invention and the tricks used in this area. All companies, especially listed ones, tend to invent their own indicators and sometimes they alone know the definition of these indicators. Even traditional indicators (e.g. EBITDA, ROCE and ROE) do not obey a single calculation rule, because they fall within the scope of financial communication rather than accounting standards.

The fact remains that this copious communication is not always properly assimilated. A CEGOS survey[1] of 800 French employees in 2004 found that financial concepts are not always understood by all employees. For instance, only 36 % of staff think they have sufficient knowledge to decode the financial information supplied by the company. To assess this deficit, CEGOS asked employees to define specific financial indicators. The findings are incontrovertible: 89 % of employees do not know what EBITDA means, and 88 % do not know what working capital requirement means.

Financial communication to employees appears to overlook the obvious, namely the need for education and assimilation. Raising the issue of financial communication also means asking the question "Why", both as regards the companies communicating and the employees on the receiving end of this communication.

R.J. Craig and R. Hussy (1982) suggest that any theory of financial information for employees must be based on four principles, individually or in combination:

1. Management is obliged to provide information on the company's financial situation (this is the case in France),
2. Employees need information on the company's financial situation,
3. It is in management's interest to provide financial information to employees if it wants to improve their commitment and their performance,
4. By distributing financial information to employees, management improves its image in terms of social responsibility.

Principles 1, 3 and 4 are part of a logic of supply. Only principle 2 is concerned with the question of employee demand and the needs of employees. The CEGOS survey cited earlier gives greater insight into their preferences.

Of the varied financial information communicated by companies, employees are most aware of the indicators based on the income statement. 58 % believe that turnover is a key indicator on the company's financial situation. Similarly, 47 % think that the operating result is a major indicator. Conversely, only 30 % are interested in the return on capital employed. This ranks below the company's debt level (39 %), which indicates employees' awareness of the sustainability issues facing their company, rather than any interest in the leverage effect in the company.

This high general awareness of the company's turnover is also evident in the way employees identify with this economic indicator. Overall, 42 % of employees feel a connection to the performance of the company's turnover in the context of their work, with 28 % believing that they can even help directly or indirectly to improve turnover.

These results are very similar to our own professional observations. They highlight the specific needs of employees in terms of financial information. Activity, the guarantor of employment, is monitored closely while profitability

[1] CEGOS's Survey realized in 2004 with 800 French employees, representative of a national sample, which covers three big categories of active persons: executives, intermediate occupations and workers.

(measured by flow of income over flow of activity) is of more interest to employees than return (measured by flow of income over flow of capital).

Productivity indicators also appear to be important to employees. These indicators are rarely to be found directly in financial information documents. But the interest shown in physical indicators such as number of customers (44 %) and volume of sales (43 %) supports this hypothesis. More generally, employees appear to prioritise the sustainability of the company around the three strands of Activity—Employment—Profitability, whereas shareholders, in line with the financial asset valuation model, are more interested in the Growth—Return equation.

This leads straight on to the stakeholder issue. Employees have specific information needs that do not coincide with those of the shareholders.

This presents no particular problem if the scope of financial reporting enables each stakeholder to locate the financial information in which he is interested. Until 2005, the French GAAP framework allowed each user to find what he wanted. Classification of expenses and revenues by type (rather than use) meant that value added could be calculated directly. Organising the balance sheet by growing liquidity (assets) and growing debt (liabilities) met the needs of the bankers.

The application in 2005 of IFRS accounting standards changed the rules of the game and introduced a new accounting and financial reporting model. This innovation concerns not only the accounts of listed companies but also unlisted companies and SMEs, since many IFRS provisions were transposed into French law by the Accounting Regulations Committee.

For proof of this, we need to consider the conceptual framework of the IASB (2001).

By stating that *"The Framework applies to the financial statements of all commercial, industrial and business reporting entities, whether in the public or the private sectors"*, the IASB addresses the question of users.

*"The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information.* The Framework also concludes that *As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy. . .The economic decisions that are taken by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation."*

One cannot but admire the spin used by the IASB, whose attitude towards the other stakeholders is based on the "accessory follows the principal" method.

The points made by the IASB are debatable on several levels.

It adopts the traditional hypothesis that all providers of production factors, except for shareholders, are remunerated at their opportunity cost (usually assumed to be equal to the price of the factor established on a competitive market). In this scenario, the firm's objective is to maximise value for the shareholders, the sole providers of risk capital. Mechanisms must then be found to align the interests of the shareholders with those of management.

The IASB appears to overlook the basic criticisms directed at this theory. It also ignores the broader definitions of value[2] (Charreaux and Desbrières 1998), the importance of taking a long-term view (Jensen 2001) and the diversity of opinions held by shareholders themselves.

More prosaically, Jack Welch, former CEO of General Electric, regarded by the business world as the godfather of shareholder value and by analysts as the supreme champion of financial return on investment, has now backtracked to the point of declaring in the Financial Times (12 March 2009) that shareholder value *"is the dumbest idea in the world"*. Jack Welch sees shareholder value as a result (in the residual sense of the term). Using it as a strategy amounts to predetermining that which first has to be created (income), by mobilising the real levers of value creation (employees, customers, processes).

It would have been helpful if this awareness had come about earlier (before the crisis for instance), but better late than never.

Similarly, the rise in unemployment and the increased insecurity show that, contrary to the assertions of the IASB, shareholders are not the only providers of critical resources. Employees should be included in this category. Specific human capital, i.e. all the skills, knowledge, networks and personal relations specific to a company and which would be useless in a different company, contributes to value creation while creating a risk of specialisation for the employee. R. Topel (1991) believes that around 10–15 % of the total remuneration of employees in large companies rewards specific skills rather than generic ones. By the same token, R. Topel states that employees who lose their job through no fault of their own suffer an average pay cut of 10–15 % when they find new employment.

This raises the problem of valuation of human capital in the accounts. Although everyone agrees that it forms the basis of the information society, the knowledge economy and the network society, it is still never recorded in the assets, for lack of a suitable normative framework. IFRS make the recording of an asset contingent on its effective control and on proof that a net flow of future cash flows is being generated. There is no such sensitivity when it comes to recording company liabilities (pension liabilities and retirement allowances), which have to be recorded irrespective of their maturity dates.

This reluctance is unfortunate given that the IFRS have no problem recognising other categories of intangible assets such as technologies, processes, customer relations and intellectual property. Human capital is not activated on the balance sheet because, according to the IASB, it is inseparable from the entity. Despite evidence to the contrary, we are therefore forced to conclude that what cannot be measured does not count. Accordingly, a company which spends 10 % of its wage bill on training employees has (according to the IFRS) no more assets than a company that only spends 2 % on employee training. Footballers are the lucky

[2] For Charreaux and Desbrières, value added is the difference, on the whole value chain, between the opportunity price for the customer and the opportunity cost for the supplier. This value added is then distributed among the various stakeholders of the company.

exception: they can be entered as assets on the balance sheet. Hence the ongoing debate as to whether they should be classified as stock or fixed assets.

A further aspect creates a problem from the employees' perspective. This is the preference given to fair value, in other words the market value or any comparable value. The accounts then become procyclical, reflecting the adjustment in the prices of assets and liabilities rather than the company's profitability. The need for explaining factors thus comes up against the definition of the very function of the company, with production and distribution of goods and services increasingly being overtaken by financial activity.

Furthermore, fair value favours a patrimonial idea of the entity at the expense of entrepreneurial vision. Under the IFRS, the income statement may be brief (4–5 lines) and classified by type or use at the company's discretion. A great deal of useful information, such as labour cost, is thus often omitted and at best relegated to a note in the appendix.

Under the IFRS, the income statement, the basis for analysis of the entity's performance, is now accorded inferior status. The conceptual framework is based in the first instance on the definition of assets and liabilities. Income becomes the difference between the opening and closing equity (excluding transactions with shareholders). More to the point, it becomes unintelligible: the items record not only the transactions during the financial year (economic performance) but also the impact of changes in value.

## 3 What Is Really Important to Employees?

With the advent of the IFRS, financial information often boils down to a presentation of the financial situation (via the balance sheet), the company's performance (via the income statement) and the net situation (via the change in equity).

This form of traditional reporting is of course useful to employees. The balance sheet situation is examined closely in order to:

- make sure that the company is sustainable,
- check the level of debt and the constraints it places on operational management and on employees,
- assess the level of funds committed and the quality of the company's investments. Goodwill is generally regarded with scepticism and its depreciation is often associated with bad bets made on behalf of the company and its employees.

Employees also scrutinise the income statement balances, and profitability issues are often considered from the standpoint of the dual challenges of the company's competitiveness and the equitable distribution of the fruits of growth.

Activity (represented by turnover or total operating revenues) is the most direct link that employees have with the accounts, and is both a projection of their labour on to the market and a guarantee of employment.

This interest often spills over into broader indicators. The order book and order intakes anticipate future activity. The analytical details of turnover by business line and/or region fulfil the need of employees and their representatives for identification and benchmarking.

More generally, the pervasiveness of the international standards (which favour presentation of accounts by use rather than type of expenses and earnings) means that reporting of management balances and especially value added is becoming increasingly rare. Value added has progressively disappeared from the financial reporting stage, under pressure from shareholder value reporting.

## 4 Profit-Sharing as a Specific Method of Financial Reporting for Employees

Financial information has its roots in more than balance sheets or income statements alone. It also comes in formats specifically designed for employees. Employee profit-sharing is an interesting example of this. For instance, French companies with more than 50 employees have, by law, to implement a profit-sharing scheme with a predefined formula.

The statutory formula [1/2 (Profit − 5 % of equity) × Wages/Value added] calculates a disposable portion of earnings (half). It is based on taxable profit, which is meant to be controlled by a powerful third party (the tax authorities), and therefore less susceptible to the problems of accounting conventions or attempts to smooth earnings. The distribution criterion (Wages/value added) is meant to represent the employees' share in wealth creation. The cost of capital is not neglected since a minimum return on equity is specified.

Then there is an example of a variable and deferred remuneration scheme, whose criteria can be amended by labour negotiation in the company. Companies retain the right to sign exceptional profit-sharing agreements, provided that the benefits guaranteed to employees are at least equivalent to those they might have received if the standard formula had been used.

These exceptional agreements account for 21 % of profit-sharing schemes. This percentage is even higher in companies with over 500 employees (DARES, July 2009).

In fact, given the calculation method used and the growing financialisation of companies, profit-sharing only imperfectly reflects the contribution made by employees to the company's wealth creation.

There are too many cases where the employees of a holding, cost centre company or support company receive (or do not receive) a profit share which bears no relation to their actual contribution.

This explains the growing interest shown by companies in group agreements and/or exceptional profit-sharing agreements. Using the statutory formula, these make it possible to amend the calculation method in order to bring it more in line

with the realities of the company. Thus, in a company where equity is clearly too high in relation to operating activity requirements, the exceptional formula may yield a 3 % payout instead of the 5 % stipulated in the statutory formula.

Incentive agreements, in some cases combined with profit-sharing agreements using "umbrella" formulas, have the same objective and create a criterion that reconciles economic performance with social performance and links the entrepreneur's risk to the variable and random nature of profit-sharing and incentive plans.

## 5 Jacques Richard or Financial Analysis for the Benefit of All Stakeholders

Two works illustrate Jacques Richard commitment: his book "L'analyse financière des groupes" (Richard and Becom 2000), written in collaboration with SECAFI's management and in particular, his book "Analyse financière et Audit des performances" (Richard 1993). The first edition of the book dates back to 1989 under a different title (Audit des performances). Jacques Richard surprised everyone with his choice of publisher (la Villeguérin éditions), known for its fiscal and accounting reviews. Jacques Richard opened the eyes of a generation of aspiring chartered accountants to the political challenges inherent in financial analysis rather than simply training them in its technicalities.

The impact of Jacques Richard's book can be measured by a quick glance at the other three books on financial analysis which "dominated the market" at that time. Elie Cohen (1988) provided a serious and austere analysis matrix in which a preference for EBITDA was combined with colourful descriptions of the sedimentary nature of the balance sheet. Gérard Charreaux (1989) sought to popularise value creation and the return on capital criteria. Pierre Vernimmen (1989) broadened the scope of financial analysis to include corporate valuation. His book, updated after his death by Pascal Quiry and Yann Le Fur, has become the standard textbook on market finance (betas, risk premiums, holding discounts and other concepts of very little interest to Jacques Richard).

Jacques Richard's agenda is totally different, the key theme of his book being the social question. The foreword makes this clear straight away: "*It is essential to make a clear distinction between financial return, productivity and efficiency criteria and to include an integrated analysis of all a company's performance factors.*

*The decline of the centralised economies (this was 1993) and the development of relations with China indicate that the incidence of dissociation between financial return and efficiency criteria is bound to increase: Western companies performing to extremely high levels of efficiency will be forced to close their doors as they are overtaken by companies that are perhaps less efficient but subject to less "social pressure"... These are not only clashes between economic productivity and performance. These are social models clashes as well!"*

This observation could apply almost word for word to the relocations that occurred following the financial crisis of 2008.

## 6 Value Added and Productivity: Key Concepts for Jacques Richard

Seldom has a work of financial analysis focused as keenly on efficiency and productivity criteria as Jacques Richard's book.

In contrast, Gérard Charreaux (1989) dismisses value added in just a few lines. He sees no need to include it in the scope of a financial return analysis. He even questions the point of analysing the distribution of value added between different beneficiaries, since "*payments made to creditors and personnel are for the most part fixed and priority payments*." Our activities with works councils alongside Jacques Richard clearly showed how misguided this statement was, since companies frequently treated employees as an adjustment variable. In many cases, the fixed and predetermined items were capital and dividend levels.

If we had to use a synthetic indicator of the employee perspective, it would be value added. It represents the increase in wealth generated by the use of the firm's resources and provides the basis for distribution between shareholders, creditors, employees and the government.

Academic research (Evraert and Riahi-Belkaoui 1998) sees many virtues in value added reporting. The summary of empirical research points to the following benefits from the information contained in value added:

– It creates a good social climate by emphasising the contribution made by employees to the company's results.
– It ensures that greater consideration is given to productivity issues, in conjunction with the bonus system.
– It establishes a direct link with national accounting and with the models and techniques used by economists.
– It provides a better indicator than turnover of the company's size and importance.
– It is a useful tool for labour negotiations, as it better reflects the aspirations and expectations of the stakeholders.
– It is a better measure of the company's performance, far superior to the information provided by net earnings, which compared to value added, depends far more on the company's conventions and accounting choices.
– It can be a better criterion for measuring the efficiency of the management.

From the employees' point of view, value added allows discussion to focus on the Labour factor and its role both in the creation (or capture) of value and in its distribution.

The importance of the value added concept stems from its position at the intersection of three dimensions of analysis.

Value added is an indicator of production organisation choices: the value added ratio (ratio of value added to total product) is one of the main indicators of the level of integration of production, in other words the ratio of in-house activity to sub-contracted activity. The implications for the qualifications of the company's personnel are very different. The choice between producing goods in-house or having them produced outside the company is at the heart of discussions concerning the business lines of the company, which tends to focus on its core business and outsource functions and activities regarded as non-strategic because they do not generate sufficient value.

Value added is a key indicator of the company's profitability and efficiency. It can also be usefully combined with productivity analysis and linked with the investment rates of companies.

Value added is the basis on which earnings are distributed. It measures wealth creation, which enables payouts to be given (or not, in some cases) to the various stakeholders in the company's business. The employees (including temporary staff) who receive wages, the government which taxes the profits, the group and the partners who are entitled to a share in the company's earnings (profit or loss), which can take different forms (dividends, current account interest, retained profits, etc.) and the lenders who charge interest on the loans granted to the company. This is how the respective shares of each stakeholder can be defined.

It is not surprising therefore that Jacques Richard (1993, p. 379) places high importance on value added: *"the proportion of value added that accrues to each group of partners strongly influences their behaviour; at macro-economic level, changes in the distribution of value added are a key factor in explaining a financial crisis... It goes without saying that changes in the production and distribution of value added will have a huge effect on the morale of the troops and their attitude towards the company."*

We applaud Jacques' far-sightedness. One of the reasons for the last financial crisis was the deterioration over a long period of the employees' share in value added. Since the end of the 1980s, shareholders' return expectations have caused corporate debt to rise and led to pressure on wages in order to boost profits, creating a disconnect between wages and productivity and encouraging household debt so as to maintain consumption levels.

While Jacques Richard devotes 13 pages to an analysis of value added, he devotes twice that number to the analysis of productivity. This was a deliberate decision (some might say provocation) on his part.

Demonstrating all his political prowess, Jacques Richard anticipates the objection that it is productivity levels that cause unemployment and a deterioration in working conditions.

He then makes an important distinction between labour intensity and labour productivity. He uses the example of companies A and B whose hours worked, production output and expenses are identical, but where company A's productivity changes owing to an increased work pace and company B's changes because

organisation of the work has changed. Company A's working hours cannot therefore be compared with company B's working hours because they entail a higher expenditure of human energy (or factor consumption).

In making this distinction, Jacques Richard proposes that an income statement based on constant work intensity should be inserted between the two conventional income statements. This is an example of the elegance of Jacques Richard's ideas, which unfortunately have been adopted only on a limited scale.

Equally original is his concept of hidden costs (which he calls dysfunction cost). He defines it as the loss of production plus all the incidental costs. However, Jacques Richard is very careful to distinguish between gross dysfunction cost and net dysfunction cost, which is gross cost less the cost savings the entrepreneur makes by not spending the necessary amounts on preventing dysfunctions. In this way he shows how the company can "profit" from allowing the dysfunction to continue (pollution, industrial accidents, etc.).

In his preface to Richard's book (Richard 1993), Bernard Colasse, French Professor of Accounting at Dauphine University in Paris, laments (and we lament with him) the absence of a chapter on the social climate. It would have been interesting to read this chapter years before the explosion of psychosocial risks and the rise in concerns linked to employee health and working conditions.

## 7 Twenty Years on, the Employee and the Bubble

In the words of Jacques Richard (Capron 2005, p. 116), we have moved on to the 3rd stage of shareholder capitalism, where *"capitalists want to be able to show the results at the beginning of the investment cycle regardless of the rate of sales, using the discounted cash flow method... What proponents of modern fair value want is to be able to distribute potential profit, including through subjective valuation without reference to the market."*

We have closely followed this development, which favours shareholders at the expense of employees. While the proportion of goodwill (increasingly rarely written off in the balance sheet) has exploded, the level of dividend distribution has remained very high in companies, even at the height of the financial crisis of 2008–2009. This fact is even more astonishing when share buyback (another form of dividend distribution) is added to the equation, now the "investment" of choice for the major listed companies.

At the turn of the century, and amid the euphoria of the internet bubble, the antagonism between managers and shareholders seemed to soften. The standard return on equity predetermined the payout expected by shareholders (15 %), stock option plans ensured that the interests of management were aligned with those of the shareholders, and the full effects of debt leverage were felt. The profit expectations decried by Jacques were already at work, as indicated by the development of creative accounting (not to say fraud) and the complicity of auditors. When the recession hit, it became apparent that capitalism (in more and more of a hurry) was

anticipating (sometimes crudely and too obviously, as in the case of Enron) a change which was offered to it on a plate when the IFRS were implemented a few years later.

When this change occurred, employees lost out. The ill-considered risk taken for the benefit of companies was ultimately borne by many employees both in their everyday work (pressure on labour intensity) and as the result of major strategic operations (company mergers, restructurings and redundancy plans).

It is interesting to note that after the internet bubble burst and in the wake of the various financial scandals, the debate on governance[3] focused on realigning the interests of managers and shareholders. No thought was given to greater employee participation in the governance of their companies. We had to wait until the National Interprofessional Agreement of 11 January 2013 for any prospect of employee participation on the boards of private companies, although this mechanism is still too weak to make any real difference to the strategic decisions taken by companies.

## 8 The Issue of Governance for Employees Has Now Gone Beyond the IFRS

The IFRS can be defined as a symbol of shareholders taking back power after the burst of the internet bubble and of management being under control: off-balance sheet items, which management is now being (politely) asked to reintegrate, provisions, which are no longer classified as reserves to the extent they once were,[4] or of the immediate posting in the accounts of changes in the markets.

In any event, this exclusive dialogue (or infernal duo) between shareholders and managers is at the very least having a stifling effect on the other stakeholders, employees to the fore.

Now that the IFRS have invaded the field of accounting and financial reporting, we should fall back on ad hoc forms of reporting, to meet the needs of employees and their representatives. This conclusion is not satisfactory per se. It comes down to the fact that the IFRS have prevailed, even though they clearly do not meet the needs of users. Moreover, there is no certainty that shareholders will take advantage from the instability created by these standards. The fact that since the last financial crisis, the value of many listed companies is now lower than that of their book

[3] Particularly in connection with the Sarbanes-Oxley Act in the United States and its French equivalent, the Financial Security Act (*loi de sécurisation financière*) in 2003.

[4] In this connection, we look back with some nostalgia at our comments in the 1980s when we referred to the “game of allocations to and reversals of provisions” when analysing net income; and the British colleague who told us that in France we always knew exactly how much should be allocated to provisions but never why it was necessary to create provisions.

value, even when inflated by “made in IFRS” pyrotechnics and updates, indicates a level of pretension that cannot withstand economic cycles.

Fortunately, this conclusion leaves the field open for the definition of new reporting frameworks. However, we must not err on the side of optimism. We only need to remember the ups and downs of the NRE[5] Act of 15 May 2001 to know that the road ahead is full of pitfalls. Article 116 of the NRE Law required some seven hundred French listed companies to include in their annual report information on their social and environmental management connected with their activity.

In 2007, The French government launched The “Grenelle Environnement”, a conference bringing together the government, local authorities, trade unions, business and voluntary sectors to draw up a plan of action of concrete measures to tackle the environmental issue. As a result, Grenelle II Act, extended the reporting system resulting from Article 116 of the NRE Law on two fronts:

- expansion of the scope of application of the system to unlisted companies whose total balance sheet or turnover and number of employees exceeded thresholds fixed by decree,
- extension of the scope of information required in the management report.

Between the initial version and the implementation decree of 2012, a number of “adjustments” were made, including definition of higher thresholds than those originally specified and deferral of the date on which the obligation comes into force.[6] Meanwhile, the French law on banking and financial regulation adopted in October 2010 clamped down on staff representatives and stakeholders expressing an opinion on the sustainable development section of the annual report issued by limited liability companies to their shareholders.

This example shows the problems inherent in defining a specific reporting scope, which is usually left to the discretion of the companies. Moreover, obligation is not synonymous with quality of information. An analysis conducted by the ALPHA Group Centre “Etudes et Prospective” on the application of the provisions of the NRE Law is enlightening in this respect.[7] The findings of this study are irrefutable. *“We are therefore a long way from the spirit in which this law was intended, a long way from the stated aim of reporting to shareholders, namely improving the competitiveness of companies. While considerable attention is focused on sustainable development because of the potential solutions it offers in terms of resolving the financial and economic crisis, companies do not always use social reporting as a risk and opportunity management tool, but only as an external communication tool. The way in which the tool shapes the content of companies’ social*

[5] New economic regulations.

[6] For unlisted companies with fewer than 500 employees or a turnover of less than EUR 100 million, this obligation will not come into effect until financial year ending 31 December 2016.

[7] Read also: Report on 9 years of enforcement of the NRE Law (*New Economic Regulations*) on company reporting. Alpha Group’s Centre Etudes & Prospective, April 2012.

*responsibility only confirms our fears. Will company communication one day inspire confidence?"*

We are still a long way from implementing renewed reporting standards that take into account other needs than those of shareholders. To his credit, Jacques Richard played a significant part in defining a framework to analyse the specific needs of works councils. The intellectual rigour exhibited by Jacques in his financial and accounting writings never stopped him placing them in their broader macro-economic context. This went hand in hand with a lifelong passion for social issues. The decision to preserve natural capital was an obvious follow-on from the decision to preserve and develop human capital. This explains his focus on sustainable development issues in the latter part of his career (Richard 2012).

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